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1961

# Revision of articles 7 and 12 of regulation S-X

United States. Securities and Exchange Commission

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## Recommended Citation

United States. Securities and Exchange Commission, "Revision of articles 7 and 12 of regulation S-X" (1961). *Federal Publications*. 169.  
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For IMMEDIATE Release Wednesday, July 26, 1961

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C.

SECURITIES ACT OF 1933  
Release No. 4396  
SECURITIES EXCHANGE ACT OF 1934  
Release No. 6601  
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935  
Release No. 14483  
INVESTMENT COMPANY ACT OF 1940  
Release No. 3294  
ACCOUNTING SERIES  
Release No. 89

REVISION OF ARTICLES 7 AND 12 OF REGULATION S-X

The Commission today adopted a general revision of Articles 7 and 12 of Regulation S-X which govern the form and content of financial statements and related schedules filed by insurance companies other than life and title insurance companies. This revision reflects changes in requirements of the Annual Statement filed with state regulatory authorities and developments in insurance reporting since these articles were originally adopted.

As a result of the reluctance on the part of independent public accountants to express an opinion in respect of the financial statements included in the Annual Statement and the accounting principles and practices reflected therein as required by Rule 2-02(c) of Regulation S-X without taking exception to certain insurance accounting practices, there has grown up the practice of reconciling the statutory capital share equity and net income or loss with capital share equity and net income or loss as determined in accordance with generally accepted accounting principles and practices. Special note 2 of Rule 7-05 gives recognition to this practice where such differences are deemed to be material, the principal differences being in the accounting for non-admitted assets and commissions and expenses incurred in writing insurance.

Text of Amendment

The revised articles are attached except that Rules 12-10, 12-12, 12-14, 12-15 and 12-17 referred to in Rule 7-06 under Schedules VIII, IX and X which are unchanged and other rules not applicable to Article 7 have been omitted.

Statutory Basis

The foregoing action is taken pursuant to the Securities Act of 1933, particularly Sections 6, 7, 8, 10 and 19(a) thereof, the Securities Exchange Act of 1934, particularly Sections 12, 13, 15(d) and 23(a) thereof, the Public Utility Holding Company Act of 1935, particularly Sections 5(b), 14, and 20(a) thereof, and the Investment Company Act of 1940, particularly Sections 8, 30, 31(c) and 38(a) thereof.

The revised articles shall be effective with respect to financial statements for any fiscal year ending on or after December 31, 1960, filed as a part of any registration statement, application for registration or report. However, if a registrant so elects, the revised articles may be applied to financial statements filed prior to that date.

By the Commission.

Orval L. DuBois  
Secretary

ARTICLE 7. INSURANCE COMPANIES OTHER THAN LIFE AND TITLE INSURANCE COMPANIES

Rule 7-01. Application of Article 7.

This article shall be applicable to financial statements filed for insurance companies other than life and title insurance companies. (Title insurance companies shall comply with the requirements of Article 5.)

Rule 7-02. General Requirement.

Except as otherwise provided in this article, persons subject to this article shall follow the rules and instructions governing the definition and computation of items in annual statements to their State regulatory authority. If the registrant deviates from such rules and instructions of its State regulatory authority, except in accordance with the provisions of this article, the reason for and effect of such deviation shall be stated.

Rule 7-03. Balance Sheets.

Balance sheets filed for insurance companies other than life and title insurance companies shall comply with the following provisions:

**ADMITTED ASSETS**

1. Bonds.
2. Investments in stocks other than stocks of affiliates.--State separately:
  - (a) preferred stocks and (b) common stocks.
3. Investments in stocks of affiliates.
  - (a) In insurance companies.--Include only stocks of insurance companies under this subcaption.
  - (b) In other affiliates.--Include under this subcaption stocks of other affiliates. If any such "other affiliate" controls insurance companies, the stock of such "other affiliate" shall be included under this subcaption, and the fact of such control shall be stated in a note to the balance sheet.
4. Mortgage loans on real estate.--State separately (a) first liens and (b) other than first liens.
5. Real estate.--State parenthetically the amount of encumbrances deducted.
6. Cash and cash items.--State separately (a) cash on hand, demand deposits, and time deposits and (b) call loans.
7. Agents' balances and/or gross premiums in course of collection.--State parenthetically the amount of ceded reinsurance balances payable deducted, if material.
8. Due from other insurance companies.--Include reinsurances recoverable on losses paid, etc.; do not include premium balances.
9. Interest, dividends and real estate income due and accrued.
10. Other assets.--State separately any significant items.

LIABILITIES, CAPITAL SHARES AND SURPLUS

11. Losses and claims.
12. Loss adjustment expenses.
13. Unearned premiums.
14. Dividends declared and unpaid.--State separately amounts payable to (a) policyholders and (b) stockholders.
15. Borrowed money.--State here or in a note as to each loan (a) from whom borrowed, (b) date of loan, (c) repayment terms and other conditions governing each loan, (d) due date, (e) extensions granted, (f) original amount, and (g) interest rate.
16. Other liabilities.--State separately any significant items.
17. Commitments and contingent liabilities.--See rules 3-18, 3-19(g) and 7-05-4.
18. Capital shares.--State for each class of shares the title of issue, the number of shares authorized, the number of shares outstanding and the capital share liability thereof, and, if convertible, the basis of conversion. Show also the dollar amount, if any, of capital shares subscribed but unissued, and of subscriptions receivable thereon.
19. Surplus.--(a) Separate captions shall be shown for (1) paid-in surplus, (2) surplus arising from revaluation of assets, (3) other capital surplus, and (4) earned surplus (i) appropriated and (ii) unappropriated. There shall be included under earned surplus, appropriated, all reserves and segregations of surplus, mandatory or voluntary, which are general contingency reserves whose purposes are not specific, or reserves for indefinite possible future losses, such as, for example, for future decline in value of investments or for contingencies.  
  
(b) If undistributed earnings of subsidiaries are included, state the amount thereof parenthetically or otherwise. However, in a consolidated statement the preceding sentence shall have reference only to the undistributed earnings of subsidiaries not consolidated in such statement.  
  
(c) An analysis of each surplus account setting forth the information prescribed in Rule 11-02 shall be given for each period for which a profit and loss statement is filed, as a continuation of the related profit and loss statement or in the form of a separate statement of surplus, and shall be referred to here. In this statement caption 3, Other additions to surplus, shall be subdivided to show (1) unrealized gain on bonds and stocks from change in market values, (2) unrealized gain on other investments from change in market values, and (3) all others, designating clearly the nature thereof. Likewise, caption 4, Deductions from surplus other than dividends, shall be subdivided to show (A) unrealized loss on bonds and stocks from change in market values, (B) unrealized loss on other investments from change in market values, and (C) all others, designating clearly the nature thereof.

(d) If separate balances are not shown in the accounts for the divisions of surplus in (a) above other than for earned surplus appropriated, i.e., if the company has not, up to the opening of the period of report, differentiated in its accounting for surplus as indicated, then the unsegregated surplus may be stated in one amount, and, in lieu of such segregation, there shall be given as a note an analysis of surplus since organization. Such analysis shall show (1) total net income after income taxes, (2) aggregate dividends paid (A) in cash, and (B) in capital stock, (3) total paid-in surplus, (4) unrealized gain or loss from change in market values, (5) aggregate transfers to reserves, (6) change in non-admitted assets, and (7) other additions or deductions of material amount, indicating clearly the nature of the item.

Rule 7-04. Profit and Loss or Income Statements.

Profit and loss or income statements filed for insurance companies other than life and title insurance companies shall comply with the following provisions:

UNDERWRITING PROFIT OR LOSS

1. Net premiums written.--State premiums written including reinsurance assumed less reinsurance ceded.

2. Increase or decrease in unearned premium reserve.

3. Premiums earned.

4. Losses incurred.

5. Loss expense incurred.

6. Balance.

7. Commissions and brokerage.--State commissions and brokerage less amount received on return premiums and reinsurance.

8. Salaries and other compensation.--State the total amount paid to directors, officers, employees and agents not paid by commission other than amounts allocable to loss and investment expense.

9. Taxes, licenses and fees.--State the total amount excluding income taxes.

10. All other underwriting expenses.--Include hereunder all other underwriting expenses not included above. State separately any material amount. Do not include investment expense under this caption.

11. Other underwriting profit or loss.--Include the income or loss from unusual or nonrecurring contingent profits or reinsurance agreements, pools and other miscellaneous contracts, licenses and agreements, etc. Give in a note a brief explanation of any items included in this account.

12. Profit or loss from underwriting.

INVESTMENT INCOME OR LOSS

13. Interest on bonds.
14. Dividends.--State separately dividends from (a) unaffiliated companies and (b) affiliated companies.
15. Interest on mortgage loans.
16. Real estate income.
17. Other investment income.--State separately any material amount.
18. Total investment income.
19. Investment expense.--Include interest on encumbrances, real estate expense, supervisory service, other fees, salaries, administrative expenses, etc. State separately any material amounts.
20. Net investment income.--Realized gains or losses on investments shall be reported in caption 26 below. Unrealized gains or losses resulting from change in market values shall be reported in the appropriate surplus account.
21. Total income and profit or loss from underwriting and investment.
22. Dividends to policyholders.
23. Net income or loss before provision for income taxes.
24. Provision for income taxes.--State separately (a) Federal normal income tax and surtax, and (b) other income taxes. Amounts allocable to realized gains or losses on investments shall be reported in caption 26 below.
25. Net income or loss.
26. Realized gains or losses on investments.--State parenthetically or otherwise the amount of income taxes deducted.
27. Net income or loss and realized gains or losses on investments.

Rule 7-05. Special Notes to Financial Statements.

1. Assets shall be set forth in the balance sheet at admitted asset values. Book values of assets included under captions 1, 2, 3(a), 3(b), 4 and 5 shall be shown parenthetically or in a note.

The total amount of non-admitted assets shall be stated in a note, and if such amount exceeds one percent of the total admitted assets then a separate statement shall be presented showing the details of such assets. State in a note or otherwise the amount of assets charged to income or surplus immediately upon acquisition during the period, if significant.

There shall also be added as a note to the financial statements the following:

"The term 'admitted assets' means the assets stated at values at which they are permitted to be reported to the respective domiciliary State regulatory authority for balance sheet purposes in the annual report in accordance with the rules and regulations of such regulatory authority.

"The term 'non-admitted assets' means assets other than assets which are so permitted to be reported."

2. State in tabular form in a note or otherwise, together with appropriate explanation, a reconciliation of material differences between (a) capital share equity as reported on the balance sheet and capital share equity as determined in accordance with generally accepted accounting principles and practices, and (b) net income or loss as reported on the profit and loss or income statement and net income or loss as determined in accordance with generally accepted accounting principles and practices.

3. State in a note the amount of surplus not available for payment of dividends to stockholders. See rule 3-19(f).

4. Explain in a note the basis of determining the unearned premiums and the estimated liability for losses and claims and state the amounts deducted in respect of reinsurance carried with other companies.

5. If the company wrote mortgage guaranty surety bonds during the period of report, state the amount of liability in force therefor as of the date of the balance sheet.

Rule 7-06. What Schedules Are To Be Filed.

(a) Except as expressly provided otherwise in the applicable form:

(1) The schedules specified below in this rule as schedules I, II, III, IV, V, VI, VIII, and IX shall be filed as of the date of the most recent balance sheet filed for each person or group. Such schedules shall be certified if the related balance sheet is certified.

(2) All other schedules specified below in this rule shall be filed for each period for which a profit and loss statement is filed. Such schedules shall be certified if the related profit and loss statement is certified.

(b) Reference to the schedules shall be made against the appropriate captions of the balance sheet and the profit and loss statement.

(c) If the information required by any schedule (including the footnotes thereto) may be shown in the related balance sheet or profit and loss statement without making such statement unclear or confusing, that procedure may be followed and the schedule omitted.

Schedule I. Bonds.--The schedule prescribed by rule 12-23 shall be filed in support of caption 1 of each balance sheet.

Schedule II. Stocks--Other than stocks of affiliates.--The schedule prescribed by rule 12-24 shall be filed in support of caption 2 of each balance sheet.

Schedule III. Mortgage loans on real estate.--The schedule prescribed by rule 12-25 shall be filed in support of caption 4 of each balance sheet.

Schedule IV. Real estate.--The schedule prescribed by rule 12-26 shall be filed in support of caption 5 of each balance sheet.

Schedule V. Summary of investments in securities--Other than securities of affiliates.--The summary schedule prescribed by rule 12-27 shall be filed in conjunction with schedules I and II.

Schedule VI. Investments in stocks of affiliates.--The schedule prescribed by rule 12-28 shall be filed in support of caption 3 of each balance sheet.

Schedule VII. Premiums, losses and underwriting expense.--The schedule prescribed by rule 12-29 shall be filed in support of caption 13 of each balance sheet and captions 1, 3, 4, 5, 7, 8, 9, and 10 of each profit and loss statement.

Schedule VIII. Capital shares.--The schedule prescribed by rule 12-14 shall be filed in support of caption 18 of each balance sheet.

Schedule IX. Other securities.--If there are any classes of securities not included in schedule VII, set forth in this schedule information concerning such securities corresponding to that required for the securities in such schedule. If the securities required to be reported on the schedules prescribed by rules 12-10, 12-12 or 12-15 are present, those schedules should be used. Information need not be set forth, however, as to notes, drafts, bills of exchange or bankers' acceptances having a maturity at the time of issuance of not exceeding one year.

Schedule X. Income from dividends--Equity in net profit and loss of affiliates.--The schedule prescribed by rule 12-17 shall be filed in support of caption 14(b) of each profit and loss statement.

Schedule XI. Summary of realized gains or losses on sale or maturity of investments.--The schedule prescribed by rule 12-30 shall be filed in support of caption 26 of each profit and loss statement.

## ARTICLE 12. FORM AND CONTENT OF SCHEDULES

### Rule 12-01. Application of Article 12.

This article prescribes the form and content of the schedules required by rules 5-04, 5A-07, 6-10, 6-13, 6-24, 7-06, and 9-04.

/Rules 12-10, 12-12, 12-14, 12-15, and 12-17 referred to in rule 7-06 under schedules VIII, IX, and X and other rules not applicable to article 7 have been omitted from this print./



1/  
Rule 12-23. Bonds.

(For Insurance Companies)

Column A	Column B	Column C	Column D	Column E	Column F	Column G
Name of issuer and title of issue <u>2/</u>	Principal amount of bonds and notes	Actual cost (excluding accrued interest)	Book value <u>3/</u>	Market value <u>4/</u>	Amortized or investment value <u>5/</u>	Admitted asset value <u>6/</u>

1/ (a) In lieu of this schedule there may be filed schedule D, part 1, of the annual statement filed with the respective domiciliary State regulatory authority. In such case the method of determining market value shown in column 7 of that schedule shall be stated in a note.

(b) All money columns shall be totaled.

2/ (a) Bonds shall be grouped in accordance with the classification required under rule 12-27 and listed alphabetically in each group.

(b) Indicate by appropriate symbol those bonds which are non-income producing or in default as to principal or interest.

3/ State the basis of determining the amount.

4/ State the method of determining market value.

5/ Indicate by a symbol whether amortized or estimated value. State the basis of determining estimated value.

6/ If admitted asset value is different from the amount shown in either column C, D, E, or F, state the basis of determining such value.

Rule 12-24. Stocks--Other than Stocks of Affiliates.

(For Insurance Companies)

Column A	Column B	Column C	Column D	Column E	Column F
Name of issuer and title of issue. <u>2/</u>	Number of shares	Actual cost	Book value <u>3/</u>	Market or estimated value <u>4/</u>	Admitted asset value <u>5/</u>

1/ (a) In lieu of this schedule there may be filed schedule D, part 2, of the annual statement filed with the respective domiciliary State regulatory authority: Provided, (1) That from the totals of the proper columns there be deducted the amounts represented by the investment in stocks of affiliates called for in the schedule prescribed by rule 12-28; and (2) the method of determining market value shown in column 6 of schedule E, part 2, be stated.

(b) All money columns shall be totaled.

2/ (a) Stocks shall be grouped in accordance with the classification required under rule 12-27 and listed alphabetically in each group.

(b) Indicate by appropriate symbol those stocks which are non-income producing.

3/ State the basis of determining the amount.

4/ Indicate by a symbol whether market or estimated value. State the basis of determining such value.

5/ If admitted asset value is different from the amount shown in either column C, D, or E, state the basis of determining such value.

Rule 12-25. Mortgage Loans on Real Estate.  
1/

(For Insurance Companies)

Column A	Column B	Column C	Column D	Column E
Summarize by State and classification indicated below 2/	Amount of principal indebtedness	Book value of mortgages	Admitted asset value 3/	Appraised value of land and buildings
NAME OF STATE				
Farm mortgages - insured (total)				
Farm mortgages - other (total)				
City mortgages - insured (total)				
City mortgages - other (total)				
Total				
Total, all states				

1/ All money columns shall be totaled.

2/ (a) Mortgage loans shall be grouped by States and in accordance with the classifications indicated in Column A above.

(b) Mortgage loans other than first liens shall be listed separately in a like manner.

(c) State in a note the amount of mortgage loans in each state and classification (1) upon which interest is overdue more than three months; and (2) which are in the process of foreclosure.

3/ If admitted asset value is different from the amount shown in either column B or C, state the basis of determining such value.

Rule 12-26. Real Estate Owned.  
1/

(For Insurance Companies)

Column A	Column B	Column C	Column D	Column E	Column F
Summarize by State and classification of property as indicated below	Amount of encumbrances	Actual cost	Book value less encumbrances	Market or fair value less encumbrances 2/	Admitted asset value 3/
NAME OF STATE					
Farms (total)					
Residential (total)					
Apartments and business (total)					
Unimproved (total)					
Total					
Total, all states					

1/ All money columns shall be totaled.

2/ State the basis of determining such value.

3/ If admitted asset value is different from the amount shown in either column C, D, or E, state the basis of determining such value.

Rule 12-27. Summary of Investments in Securities--Other than Securities of Affiliates.  
1/

(For Insurance Companies)

Column A	Column B	Column C	Column D	Column E	Column F
Type of Security	Actual cost	Book value	Market value	Amortized or investment value of bonds and notes	Admitted asset value
1. BONDS AND NOTES					
(a) Government					
(b) States, Territories and possessions					
(c) Political subdivisions of States, Territories and possessions					
(d) Government agencies and authorities					
(e) Railroads					
(f) Public utilities					
(g) Industrial and miscellaneous					
Total bonds and notes					
2. STOCKS					
Preferred stocks:					
(h) Railroad				XXXX	
(i) Public utilities				XXXX	
(j) Banks, trust and insurance companies				XXXX	
(k) Industrial and miscellaneous				XXXX	
Total preferred stocks				XXXX	
Common stocks:					
(l) Railroad				XXXX	
(m) Public utilities				XXXX	
(n) Banks, trust and insurance companies				XXXX	
(o) Industrial and miscellaneous				XXXX	
Total common stocks				XXXX	
Total stocks				XXXX	
Total investments in securities other than securities of affiliates				XXXX	

1/ All money columns shall be totaled.

1/  
Rule 12-28. Investments in Stocks of Affiliates.

(For Insurance Companies)

Column A	Column B	Column C	Column D	Column E	Column F
Name of issuer and title of issue <u>2/</u>	Number of shares	Actual cost	Book value <u>3/</u>	Market or estimated value <u>4/</u>	Admitted asset value <u>5/</u>

1/ All money columns shall be totaled.

2/ Group separately (a) stocks of insurance companies and (b) stocks of other affiliates. Within group (b) classify according to type of business. Give totals for each group and class.

3/ State the basis of determining the amount.

4/ Indicate by a symbol whether market or estimated value. State the basis of determining such value.

5/ If admitted asset value is different from the amount shown in either column C, D, or E, state the basis of determining such value.

Rule 12-29. Premiums, Losses, and Underwriting Expense.  
1/

(For Insurance Companies Other Than Life and Title Insurance Companies)

Part 1 - Premiums					Part 2 - Losses and Underwriting Expenses 2/				
Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H	Column I	
Line of insurance	Unearned premiums beginning of period	Net pre-miums written	Unearned premiums end of period	Premiums earned during period	Losses incurred during period	Loss expense incurred during period	Commis-sions and brokerage incurred during period	Other under-writing expense incurred during period 3/	

1/ All money columns shall be totaled.

2/ Fire insurance companies may furnish information under columns G, H, and I by totals only, if the information required by such columns is not available by lines of insurance.

3/ Include in this column all amounts set forth in the related profit and loss statement under captions 8, 9, and 10.

1/  
Rule 12-30. Summary of Realized Gains or Losses on Sale or Maturity of Investments.

(For Insurance Companies)

Column A	Column B	Column C	Column D
Type of security	Aggregate cost	Aggregate proceeds	Gain or loss.
Bonds			
Stocks--other than stocks of affiliates			
Stocks--affiliates			
Mortgage loans			
Real estate			
Other			
Total	—	—	—
Income taxes allocable to realized gains	XXXX	XXXX	—
Net realized gains or losses	XXXX	XXXX	—

1/ All money columns shall be totaled.